

Message Text

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ACTION EB-07

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FM AMEMBASSY LISBON

TO SECSTATE WASHDC 4060

INFO AMEMBASSY LONDON

C O N F I D E N T I A L LISBON 5078

E.O. 11652: GDS

TAGS: EFIN, PO

SUBJ: TECHNICAL AND PAYMENT DEFAULTS JEOPARDIZE \$150 MILLION

STANDBY CREDIT

REF: LISBON 3324

1. CITICORP LONDON VP INFORMED EMBASSY OF SEVERAL TECHNICAL AND PAYMENT DEFAULTS WHICH COULD CAUSE CANCELLATION OF \$150 MILLION STANDBY CREDIT TO PORTUGAL BY CONSORTIUM OF 12 US AND CANADIAN BANKS. CONSORTIUM MANAGED BY CITICORP AND MORGAN.

2. MOST SERIOUS DEFAULT IS PLEDGE OF GOLD BY GOP TO BANK FOR INTERNATIONAL SETTLEMENTS (BIS) FOR DRAWDOWNS ON BIS \$250 MILLION STANDBY TO PORTUGAL. THIS CONTRAVENES "MOST FAVORED LENDER" CLAUSE IN \$150 MILLION CREDIT FROM CONSORTIUM. ACCORDING TO BIS/GOP LOAN AGREEMENT, GOP AGREED TO PLACE GOLD IN DEMAND DEPOSIT IN BIS UPON NEGOTIATION OF CREDIT; UPON DRAWDOWN, GOLD WAS TO BE PLACED IN FIXED MATURITY TIME DEPOSIT WHICH, ACCORDING TO CITICORP, CONSTITUTES, UNDER SWISS BANKING STATUTES, A PLEDGE OF GOLD AS COLLATERAL AND THUS A BETTER GUARANTEE TO BIS THAN TO THE CONSORTIUM. GOP AUTHORITIES HAVE ANNOUNCED PARTIAL DRAWDOWN AND CITICORP ASSUMES GOLD NOW IN TIME DEPOSIT. CIRICORP REPRESENTATIVE HAS INFORMED BANK OF PORTUGAL THAT CONSORTIUM CONSIDERS PLEDGE TECHNICAL DEFAULT OF STANDBY AGREEMENT AND IS AWAITING

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ACTION ON PART OF GOP TO REGULARIZE SITUATION. GOP APPARENTLY CAN

EITHER WITHDRAW "PLEDGE" (AND REPAY DRAWDOWN) FROM BIS OR
CHANGE LOAN AGREEMENT WITH CONSORTIUM WITH REGARD TO GUARANTEE.
RESPONSE IS EXPECTED SHORTLY.

3. SECOND POSSIBLE CAUSE FOR CANCELLATION INVOLVES RECENTLY
NATIONALIZED CEMENT COMPANY SECIL WHICH HAS \$14 MILLION LOAN FROM
1ST NATIONAL CITY BANK. ACCORDING CITICORP REF, SECIL HAS CHANGED
CORPORATE STRUCTURE (THROUGH NATIONALIZATION) AND IS
TECHNICALLY BANKRUPT, TWO CONDITIONS WHICH ALLOW LENDER TO
CANCEL LOAN AND DEMAND REPAYMENT OF ALREADY DRAWDOWN FUNDS (\$5
MILLION). SHOULD GOP REFUSE REPAYMENT OR SHOULD GUARANTOR, (NOW
NATIONALIZED BANCO ESPIRITO SANTO) REFUSE, GOP OR GOP AGENCY
WOULD BE IN DEFAULT--A CONDITION WHICH COULD FURNISH GROUND FOR
CANCELLATION OF STANDBY.

4. THIRDLY, RECENTLY-NATIONALIZED CELULOSE FIRM NOW OVERDUE
ON APPROXIMATELY \$100,000 LOAN PAYMENT TO 1ST NATIONAL CITY
BANK. PAYMENT WAS DUE IN JULY. MEETING BETWEEN GOP AND BANK WILL
TAKE PLACE THIS WEEK IN NEW YORK TO DISCUSS SITUATION. OVERDUE
PAYMENT CONSTITUTES DEFAULT ON PART OF GOP OR GOP AGENCY WHICH AGAIN
COULD JUSTIFY CANCELLATION OF STANDBY.

5. AS FAR AS EMBASSY IS AWARE, ABOVE OVERDUE PAYMENT IS FIRST
INSTANCE OF GOP OR GOP AGENCY FAILING TO MEET AN INTERNATIONAL
FINANCIAL COMMITMENT.

6. AT THIS MOMENT, CITICORP HAS NOT TAKEN ULTIMATE DECISION ON
STANDBY ALTHOUGH IT WILL INFORM CONSORTIUM PARTNERS OF DEFAULTS.
CITICORP REP FEELS OTHER BANKS IN CONSORTIUM LOOKING FOR ANY
JUSTIFICATION TO CANCEL STANDBY. ALL BANKS IN CONSORTIUM HOPE
THAT STANDBY WILL NOT BE DRAWN DOWN.
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